Presentation to:

Louisiana Department of Transportation and Development

Toll Road Finance

Prepared by Salomon Smith Barney

March 14, 2001

SALOMON SMITH BARNEY
A member of citigroup

Table of Contents

Section

SALOMON SMITH BARNEY
A member of citigroup

1. Fundamentals for Toll Road Finance

SALOMON SMITH BARNEY
A member of citigroup

A. Major Considerations in Financing Toll Roads

SALOMON SMITH BARNEY
A member of citigroup

Major Considerations in Financing Toll Roads

1. Project feasibility
2. Traffic demand and trends
3. Competition
4. Economic strength and diversity of toll road region
5. Quality of management
6. Strength of legal provisions

SALOMON SMITH BARNEY
A member of citigroup

Major Considerations in Financing Toll Roads

1. Project feasibility

   - Construction costs: complex nature of capital improvements
   - Studies by independent engineers
     - Traffic
     - Construction
   - Evaluation of revenue and operating costs

2. Traffic demand and trends

   - Level of congestion/necessity of road
   - Types of trips traveled (business/ recreation/commuter)
   - Composition of traffic (commercial long haul vs. local discretionary vs. local required)
   - Vulnerability of traffic to business cycles, motor fuel shortages and price escalations
   - Variation in traffic demand due to economic changes, construction and competition

3. Competition

   - Availability and capacity of free alternative routes to the tolled facilities
   - Plans for future competing facilities

SALOMON SMITH BARNEY
A member of citigroup

Major Considerations in Financing Toll Roads

4. Economic strength and diversity of toll road region
   - General demographics
   - Leading employers
   - Employment and labor force trends
   - Wealth and income indicators
   - Retail sales activity
   - Business activity

5. Quality of management
   - Level of cooperation and management's overall ability to coordinate activities
   - Coordination of planning between DOT, regional and local transportation authorities and the private sector
   - Quality of maintenance
   - Budgeting process
   - Authority/Procedures to increase tolls

6. Strength of legal provisions
   - Additional bonds test
   - Common ratio used in a toll covenant is approximately 1.25x; ratio is 1.50x for start-up facilities
   - Including only historical revenues is a stronger test
   - Debt service reserve fund requirement
   - Funded at one year's debt service provides significant protection
   - Enhanced security with additional revenue pledge (highway user tax, motor vehicle tax, etc.)

SALOMON SMITH BARNEY
A member of citigroup

B. Risks Associated with Start-Up Toll Roads

SALOMON SMITH BARNEY
A member of citigroup

Risks Associated with Start-Up Toll Roads

Characteristics of Forecasts

Factors that make forecasts more **Reliable:**	Factors that make forecasts more **Problematic:**
✓ located in built-up corridors	✗ traffic demand is dependent upon future economic development (estimating future economic development is very difficult)
✓ conservative economic forecasts with moderate economic growth	✗ traffic composition (recreational traffic is more sensitive to economic variations)
✓ time savings (at least 5-10 minutes over competing routes; greater time savings needed for longer routes)	✗ national recession
✓ higher income levels	✗ downturn in regional economy
✓ revenue growth under 5%/year over first four years	✗ failure to market and sign the road to new users
✓ toll levels under $0.10/mile	✗ lower income levels which signify greater reluctance to pay tolls

SALOMON SMITH BARNEY
A member of citigroup

Risks Associated with Start-Up Toll Roads

Key Traffic Factors

1. Adjustments for seasonality
2. Current and potential changes in land use
3. Traffic composition
4. Ramp-up factor
5. Commuter peaking
6. Driver information
7. Non-revenue vehicles
8. Toll evasion

SALOMON SMITH BARNEY
A member of citigroup

Risks Associated with Start-Up Toll Roads

Additional Risks Associated with Start-Up Toll Roads

1. Construction Risk

-On-time completion

-Technical difficulties

-Cost over-runs

2. Control of Operation and Maintenance Costs

-Reasonability of estimates

-Ramp-up period vulnerability

-Reasonable renewal and replacement investment

SALOMON SMITH BARNEY
A member of citigroup

Risks Associated with Start-Up Toll Roads

Financing Solutions to Mitigate Risks

1. Adequate Cash Reserves
2. Moderate Amortization
3. Construction guarantees/protection
4. Renewal & Replacement Contingency
5. Operation & Maintenance Support
6. Sufficient Capitalized Interest Contingency

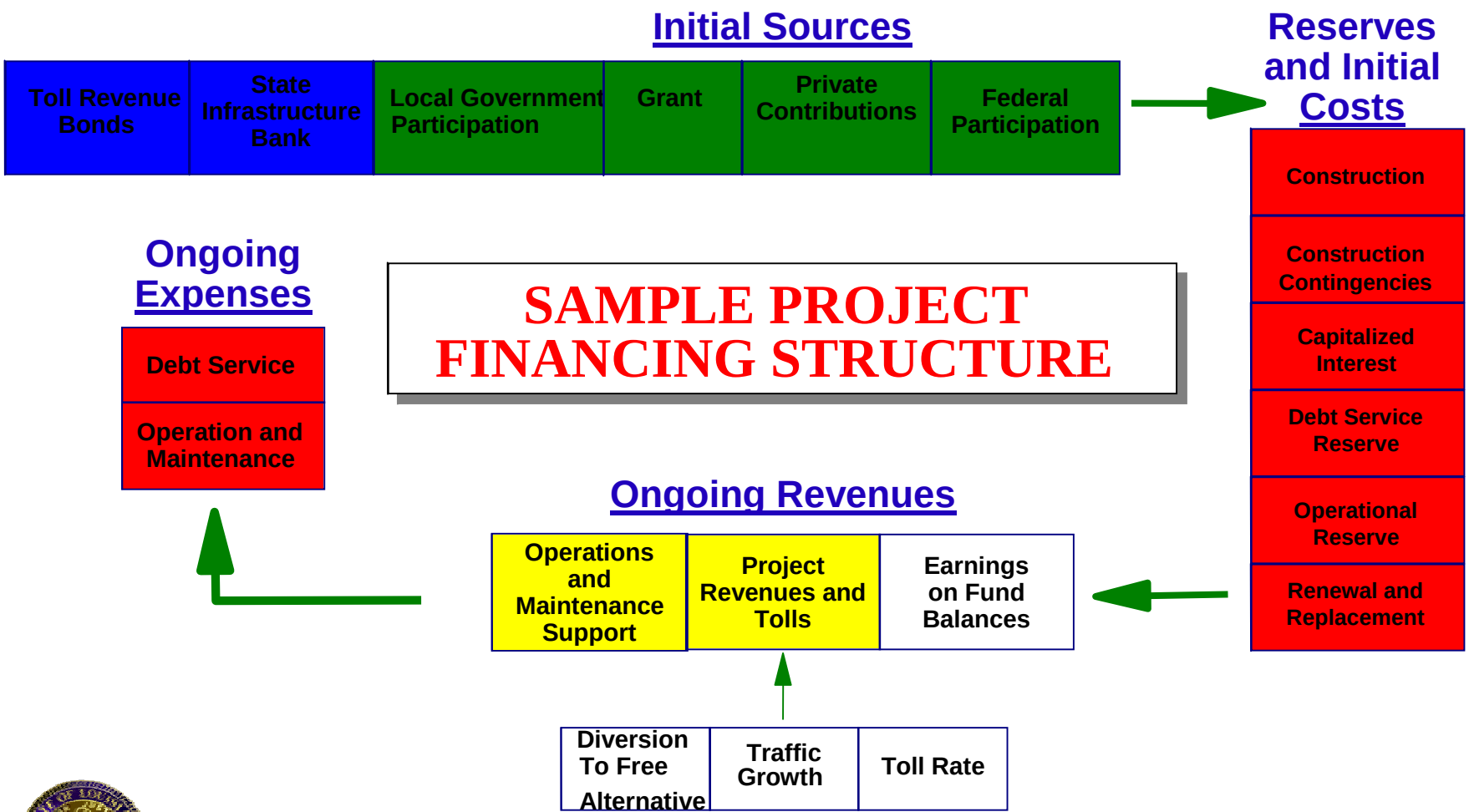
SALOMON SMITH BARNEY
A member of citigroup

C. Funding Mechanisms

SALOMON SMITH BARNEY
A member of citigroup

Funding Mechanisms

Cash Flow Summary



SALOMON SMITH BARNEY
A member of citigroup

Funding Mechanisms

Additional Uses of Funds

1. Construction Funds
   - Pays for project construction and possible contingencies including cost over-runs

2. Capitalized Interest
   - Pays interest during the construction period prior to receipt of project revenues

3. Debt Service Reserve
   - Provides additional security for repayment of bonds and for any additional loans

4. Operational/Renewal and Replacement Reserves
   - Serves as additional liquidity for both operational shortfalls and potential renewal and replacement over-runs

SALOMON SMITH BARNEY
A member of citigroup

Funding Mechanisms

Additional Sources of Funds

1. State Infrastructure Bank
   - Capital Loan
   - Credit enhancement

2. DOT Contribution
   - Payment of Operation and Maintenance
     - Results in gross pledge of revenues to bondholders
     - DOT reimbursed from future surplus revenues
     - If built by DOT as a free highway, O&M is the responsibility of DOT to be paid from the operations budget
   - Loan under Section 129 of Title 23

3. Private sector contribution
   - Right-of-way
   - Capital Investment
   - Design/Build

4. Participation from local communities
   - Pledge of tax or fee stream or creation of special transportation taxing district
   - Contribution of land for Right of Way

5. Federal Department of Transportation
   - TIFIA Loan
   - TIFIA Letter of Credit

SALOMON SMITH BARNEY
A member of citigroup

D. Case Studies

SALOMON SMITH BARNEY
A member of citigroup

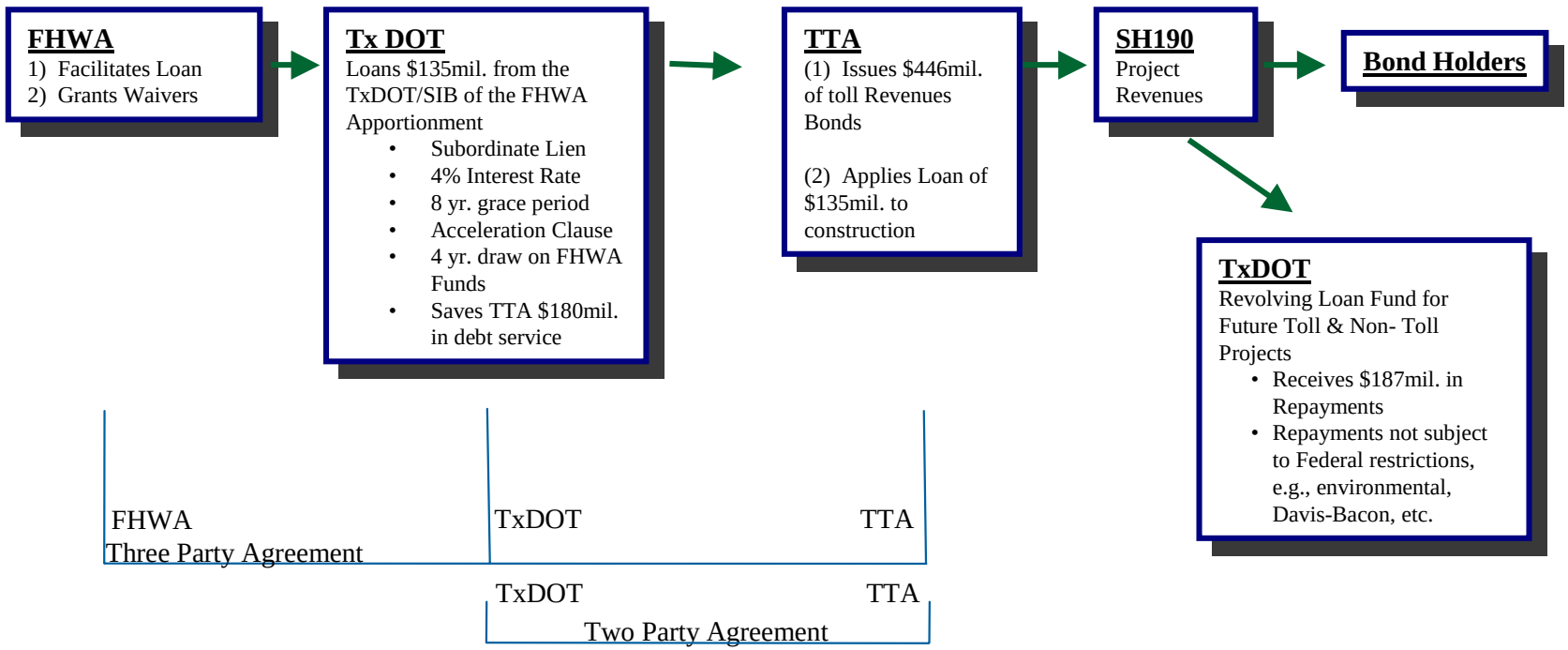
Texas DOT-Texas Turnpike Authority

State Highway 190, Dallas, Texas, *December 1995*

- 26.4 mile toll road around the northern suburbs of Dallas connecting two interstates and the Dallas North Turnpike.
- Financed with $446m of toll road revenue bonds and a $135m loan of FHWA funds from TX DOT to TTA which makes the project feasible.
- Loan of FHWA Funds saves over $180m in debt service costs for the project.
- Loan repayments generate over $185m to TX DOT for future projects in Texas.
- Loan repayments can be used for any eligible transportation projects in Texas and are free from most federal restrictions.
- First loan of FHWA funds to be reviewed and evaluated by the rating agencies and institutional investors and the first such financing to be successfully completed.

SALOMON SMITH BARNEY
A member of citigroup

S.H. 190 (President George Bush Turnpike)



Key:
FHWA - Federal Highway Administration
TxDOT - Texas Department of Transportation
TTA - Texas Turnpike Authority

SALOMON SMITH BARNEY
A member of citigroup

City of Laredo, Texas

Texas - Texas DOT - TTA - International Toll Bridge System

International Bridge No. IV - September 1998 - $30,260,000

Laredo, Texas #4

- SIB Loan of Federal ISTEA Funds	$27.00m
- Toll Bridge Revenue Bonds	$30.26m
- State of Texas Grant	$34.00m

Participants: TxDOT, Texas Turnpike Authority (TTA), City of Laredo

- 4th Crossing to be for exclusive use of truck traffic (7 miles north of Laredo)
- Permits Bridges 1 and 2 to be decongested and used only for auto and pedestrian traffic
- TE-045 Designated Innovative Finance Project by FHWA
- Loan of $27.0 million of Interstate Maintenance Funds by TxDOT through TTA Revolving Loan Fund
- System Financing

SALOMON SMITH BARNEY
A member of citigroup

Mid-Point Bridge - Lee County Florida

Mid-Point Bridge - *June 1995 - $131,890,000*

- Third bridge of the Lee County Toll System which includes:
  - Cape Coral Bridge
  - Sanibel Bridge
  - Mid-Point Bridge
- System Financing
- $20 Million in Federal ISTEA Funds
  - $13 million to purchase variable pricing program equipment
  - $7 million utilized as a revenue stabilization reserve
- Financed by both toll revenue and local option gas tax bonds
  - $35,360,000 Five Cent Local Option Gas Tax Bonds
  - $96,530,000 Transportation Facility Revenue Bonds
- Revenue stabilization reserve freed for use in supporting other Lee County transportation projects after three years of operations

SALOMON SMITH BARNEY
A member of citigroup

*Texas Turnpike Authority, Expected 2001 Toll Road Revenue Bonds**

- Authority utilizes 3 types of funding:
  - $800 million TIFIA loan (Accepted by Federal DOT in 11/00)
  - $700 million loan from Authority's parent TxDOT
  - $1.3 billion issuance of tax-exempt Senior Lien Obligations
- Bonds will be primarily tax-exempt fixed rate bonds combining:
  - Current Interest Bonds
  - Capital Appreciation Bonds
  - Deferred Interest Bonds
- Financing structure utilizes a gross revenue pledge whereby TxDOT will support O&M costs in earlier years
  - System revenues are pledged first to debt service to allow the Authority maximum funding for construction
  - The O&M expenses are subordinate to debt service
  - The Financial obligation for O&M is supported by an arrangement with TxDOT

* Financing expected to be completed in the 2nd Qtr of 2001

SALOMON SMITH BARNEY
A member of citigroup

2. Transportation Infrastructure Finance and Innovation Act (TIFIA)

SALOMON SMITH BARNEY
A member of citigroup

A. Overview of TIFIA

SALOMON SMITH BARNEY
A member of citigroup

Background

- Established by Transportation Equity Act for the 21st century (TEA-21)
- Allows states to borrow directly from or use credit of U.S. Treasury in support of major transportation projects

Highways	Toll and Non-Toll
Rail	Freight and Passenger
Transit	Vehicles, Equipment and Guide-way
Intermodal	Freight

- Operates as a Federal line of credit or as a loan
- Can be utilized in conjunction with taxable and/or tax-exempt financing
- Leverage capital raised in the public markets with Federal support
- Additional funding above a state's annual obligational authority

SALOMON SMITH BARNEY
A member of citigroup

Financing Terms

- Project must exceed $100 million or 50% of state's apportionment
- Can fund up to 1/3 of project costs
- Treasury loan may be junior to other debt in lien or revenue, but senior to other debt in bankruptcy
- 35 year maximum maturity
- Both principal and interest may be deferred for up to five years
- Pre-payable without penalty
- Preference for Federal loan to be serviced locally by state infrastructure bank
- Projects must be on State Transportation Improvement Plan (STIP)
- Projects must be evaluated based on economic benefits, credit quality, and other financial factors
- Preliminary rating agency opinion required

SALOMON SMITH BARNEY
A member of citigroup

Financing Objectives

- Alternative source for capital when there is a market gap for project financing
- Leverage private investment with public support
- Integrate up to 3 levels of government and the private sector

SALOMON SMITH BARNEY
A member of citigroup

Application, Evaluation and Selection

- FHWA has completed two rounds of TIFIA awards (September 1999 and September 2000); eight projects selected for loans and/or lines of credit
- Applications for round three due on September 15, 2000
- Applicants not required to be State DOT but project must be on STIP
- Applications will be accepted simultaneously with rule amendment process
- Projects will be evaluated and approved on a rolling basis
- Loan guarantees preferred over a direct loan
- State Infrastructure Bank (SIB) preferred debt servicer

SALOMON SMITH BARNEY
A member of citigroup

Contract Authority and Outlays

Transportation Infrastructure Finance and Innovation Act

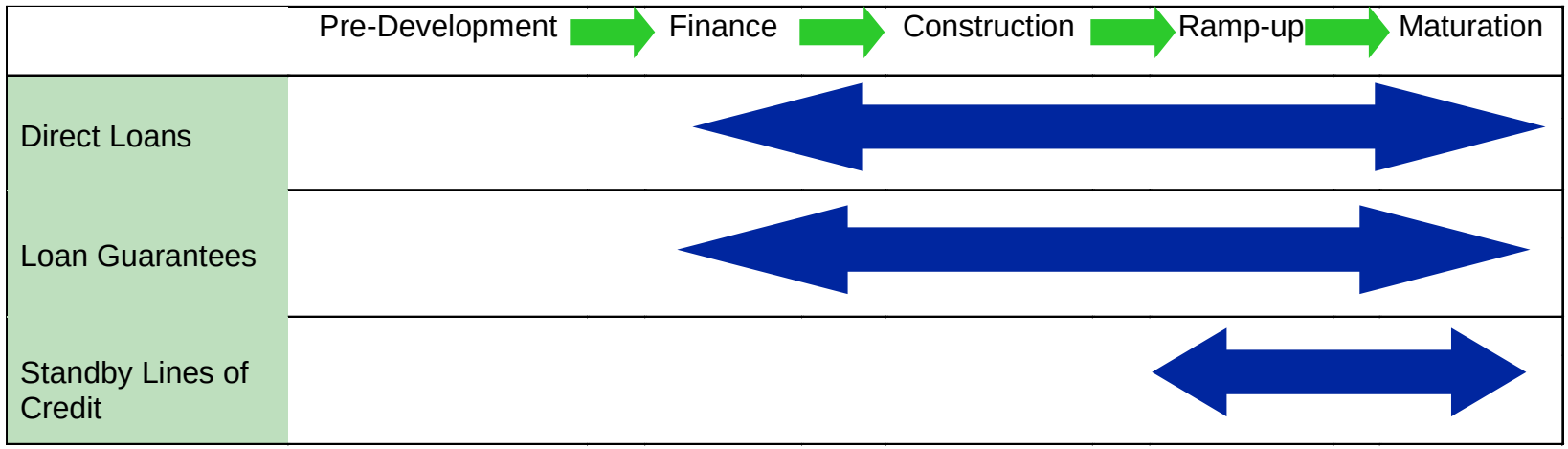
Year	1998	1999	2000	2001	2002	2003	Total
Authorization	$0	$80M	$90M	$110M	$120M	$130M	$530M
Max. Nominal Amount of Credit	$0	$1,600M	$1,800M	$2,200M	$2,400M	$2,600M	$10,600M

Source: FHWA

- Authorized $530 million is full contract authority
- Equates to subsidy cost of loan losses/credit support to support $10.6 billion of projects (scored = projected $ loss)

SALOMON SMITH BARNEY
A member of citigroup

TIFIA Assistance



SALOMON SMITH BARNEY
A member of citigroup

B. Case Studies

SALOMON SMITH BARNEY
A member of citigroup

Farley-Penn Station: Overview

- New York, New York
- Expansion and Refurbishment of the largest passenger transportation facility in the U.S.
  - Incorporates Farley Post Office into Penn Station
  - Serves Amtrak, commuter rail, and subway passengers as well as U.S. Postal Service
  - Includes traffic and pedestrian improvements
  - Estimated completion: December, 2003
- Cooperative venture among Amtrak, U.S. Postal Service, and Federal, State, and City governments
- Estimated cost: $749 million
- SSB is serving as senior managing underwriter

SALOMON SMITH BARNEY
A member of citigroup

Farley-Penn Station: Credit Terms

- Credit Instruments
  - Direct Loan
  - Line of Credit
- Amounts
  - Direct Loan: $140 Million
  - Line of Credit: $20 Million
- Repayment Source:
  - Lease payments from retail development in Farley Building and existing Penn Station
- Terms
  - 35 years from completion

SALOMON SMITH BARNEY
A member of citigroup

State Route 125: Overview

- San Diego, California
- Construction of a 9.3-mile toll facility along the southern segment of SR 125
  - Part of a new 11.2 mile limited-access corridor connecting San Diego to the U.S.-Mexico border crossing at Otay Mesa
  - Accommodates land development and economic growth
  - Responds to transportation demands of commuters and facilitates cross-border freight traffic
  - Estimated completion: October 2002
- California Transportation Ventures, Inc.
  - Serves as managing partner of San Diego Expressway Ltd. Partnership
  - Investors include Parsons Brinckerhoff, Egis Projects, and Koch Industries
- Total Cost: $397 million
- SSB is serving as financial advisor and senior managing underwriter

SALOMON SMITH BARNEY
A member of citigroup

State Route 125: Credit Terms

- Credit Instruments
  - Loan Guarantee
  - Line of Credit
- Amounts
  - Loan Guarantee: $91 million
  - Line of Credit: $37 million
- Repayment Source: Toll Revenues
- Terms
  - Loan Guarantee: 35 years from completion
  - Line of Credit: 35 years from completion

SALOMON SMITH BARNEY
A member of citigroup

Tren Urbano: Overview

- San Juan, Puerto Rico
- Completion of a 17-km rapid rail system
  - Will have 16 stations
  - Will carry 100,000 trips per day in first year of operation
  - Estimated completion: May 2002
- Puerto Rico Highway and Transportation Authority
- Total Cost: $1.676 billion
- SSB is serving as senior managing underwriter

SALOMON SMITH BARNEY
A member of citigroup

Tren Urbano: Credit Terms

- Credit Instruments: Direct Loan
- Amounts: $300 million
- Repayment Source:
  - Fuel tax receipts
  - Motor vehicle registration
  - Farebox receipts
- Terms: 5 years from completion with balloon payment in 2007

SALOMON SMITH BARNEY
A member of citigroup